Budget Footnotes

A Newsletter of the Ohio Legislative Service Commission — July 2008

Status of the GRF

Highlights

— *Wendy Zhan, Associate Director, 614-728-4814*

General Revenue Fund sources and uses for FY 2008 were both below the estimates made by the Office of Budget and Management (OBM) in August 2007. GRF sources of $26,662.5 million were $331.6 million (1.2%) below estimate. GRF uses of $26,413.4 million were $484.6 million (1.8%) below estimate. As shown in the table below, overall, GRF finished the year with an unobligated cash balance of $807.5 million.

Simplified GRF Cash Statement, as of June 30, 2008 ($ in millions)	
Beginning Cash Balance	**$1,432.9**
Plus Revenues and Transfers in	$26,662.5
Less Expenditures and Transfers Out	$26,413.4
Ending Cash Balance	**$1,682.0**
Less Encumbrances	$874.5
Unobligated Ending Cash Balance	**$807.5**

Tax revenues, accounting for 72.8% of total GRF sources, were below estimate by $238.4 million (1.2%). Except for the kilowatt hour excise, foreign insurance, and business and property taxes, all taxes performed below estimate. Including nontax revenues and transfers in, state-source receipts were $166.1 million (0.8%) below estimate. Federal grants were $165.6 million (2.9%) below estimate.

Program expenditures, accounting for 97.4% of total GRF uses, were below estimate by $706.2 million (2.7%). Except for *tax relief* and *other* and *justice and public protection*, all program expenditures were below estimate, due to a combination of timing, executive-ordered budget reductions, and lapsed funds.

Compared to FY 2007, tax revenues were down 0.3% while program expenditures were up 2.3%. Total GRF sources and uses were up 3.4% and 2.1%, respectively.

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Have a Great Summer!

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Variance is the difference between actual receipts and estimated receipts; a positive variance means receipts were above estimate, and a negative variance means receipts were below estimate.

Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of June 2008
($ in thousands)
(Actual based on report run in OAKS on July 11, 2008)

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$80,804	$93,750	-$12,946	-13.8%
Nonauto Sales and Use	$563,558	$554,800	$8,758	1.6%
Total Sales and Use Taxes	$644,362	$648,550	-$4,188	-0.6%
Personal Income	$868,820	$768,300	$100,520	13.1%
Corporate Franchise	$99,966	$116,200	-$16,234	-14.0%
Public Utility	$738	$200	$538	269.2%
Kilowatt Hour Excise	$4,677	-$3,800	$8,477	-223.1%
Commercial Activity Tax**	$0	$0	$0	---
Foreign Insurance	-$5,163	$100	-$5,263	---
Domestic Insurance	$154,157	$9,800	$144,357	1473.0%
Business and Property	$21,709	$1,160	$20,549	1771.4%
Cigarette	$75,980	$83,200	-$7,220	-8.7%
Alcoholic Beverage	$6,029	$5,400	$629	11.6%
Liquor Gallonage	$3,181	$3,000	$181	6.0%
Estate	$1,924	$12,000	-$10,076	-84.0%
Total Tax Revenue	**$1,876,380**	**$1,644,110**	**$232,270**	**14.1%**
NONTAX REVENUE				
Earnings on Investments	$85,553	$52,600	$32,953	62.6%
Licenses and Fees	$725	$801	-$76	-9.5%
Other Revenue***	$36,721	$58,296	-$21,574	-37.0%
Total Nontax Revenue	**$123,000**	**$111,697**	**$11,303**	**10.1%**
TRANSFERS				
Liquor Transfers	$39,000	$12,000	$27,000	225.0%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$511,159	$309,779	$201,379	65.0%
Total Transfers In	**$550,159**	**$321,779**	**$228,379**	**71.0%**
TOTAL STATE SOURCES	**$2,549,539**	**$2,077,586**	**$471,953**	**22.7%**
Federal Grants	$220,404	$468,359	-$247,955	-52.9%
TOTAL GRF SOURCES	**$2,769,943**	**$2,545,945**	**$223,998**	**8.8%**

* Estimates of the Office of Budget and Management.
**Commercial activity tax receipts in FY 2008 are non-GRF.
***Includes $3.672 million of receivables not yet reconciled to the General Ledger.
Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Actual vs. Estimate
FY 2008 as of June 30, 2008
($ in thousands)
(Actual based on report run in OAKS on July 11, 2008)

	Actual	Estimate*	Variance	Percent	FY 2007	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$943,452	$984,221	-$40,769	-4.1%	$921,542	2.4%
Nonauto Sales and Use	$6,670,687	$6,696,400	-$25,713	-0.4%	$6,502,926	2.6%
Total Sales and Use Taxes	$7,614,139	$7,680,621	-$66,482	-0.9%	$7,424,469	2.6%
Personal Income	$9,114,735	$9,146,500	-$31,765	-0.3%	$8,885,335	2.6%
Corporate Franchise	$753,473	$832,800	-$79,327	-9.5%	$1,076,517	-30.0%
Public Utility	$157,712	$177,900	-$20,188	-11.3%	$160,232	-1.6%
Kilowatt Hour Excise	$231,218	$222,600	$8,618	3.9%	$326,929	-29.3%
Commercial Activity Tax**	$0	$0	$0	---	$0	---
Foreign Insurance	$267,277	$263,000	$4,277	1.6%	$256,178	4.3%
Domestic Insurance	$154,592	$171,000	-$16,408	-9.6%	$169,485	-8.8%
Business and Property	$22,251	$20,000	$2,251	11.3%	$20,761	7.2%
Cigarette	$950,939	$970,000	-$19,061	-2.0%	$986,251	-3.6%
Alcoholic Beverage	$56,823	$58,000	-$1,177	-2.0%	$56,327	0.9%
Liquor Gallonage	$34,961	$35,500	-$539	-1.5%	$34,301	1.9%
Estate	$61,359	$80,000	-$18,641	-23.3%	$72,109	-14.9%
Total Tax Revenue	**$19,419,477**	**$19,657,921**	**-$238,444**	**-1.2%**	**$19,468,895**	**-0.3%**
NONTAX REVENUE						
Earnings on Investments	$169,560	$174,000	-$4,440	-2.6%	$176,191	-3.8%
Licenses and Fees	$67,680	$79,000	-$11,320	-14.3%	$77,712	-12.9%
Other Revenue***	$126,836	$124,000	$2,836	2.3%	$143,572	-11.7%
Total Nontax Revenue	**$364,076**	**$377,000**	**-$12,924**	**-3.4%**	**$397,475**	**-8.4%**
TRANSFERS						
Liquor Transfers	$174,268	$157,000	$17,268	11.0%	$135,000	29.1%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$1,060,769	$992,719	$68,050	6.9%	$424,548	149.9%
Total Transfers In	**$1,235,037**	**$1,149,719**	**$85,318**	**7.4%**	**$559,548**	**120.7%**
TOTAL STATE SOURCES	**$21,018,590**	**$21,184,640**	**-$166,050**	**-0.8%**	**$20,425,917**	**2.9%**
Federal Grants	$5,643,901	$5,809,479	-$165,578	-2.9%	$5,352,475	5.4%
TOTAL GRF SOURCES	**$26,662,491**	**$26,994,119**	**-$331,629**	**-1.2%**	**$25,778,392**	**3.4%**

* Estimates of the Office of Budget and Management.
**Commercial activity tax receipts in FY 2008 are non-GRF.
***Includes $3.672 million of receivables not yet reconciled to the General Ledger.
Detail may not sum to total due to rounding.

Kilowatt hour excise, foreign insurance, and business and property taxes performed above estimate; all other taxes finished the year below estimate.

Revenues

— *Jean J. Botomogno, Senior Economist, 614-644-7758*

Overview

For the month of June, total GRF sources of $2,769.9 million were $224.0 million (8.8%) above the estimate made by the Office of Budget and Management in August 2007 (Table 1), due in part to the timing of collections of the domestic insurance and the business and property taxes, and of payments of income tax refunds. For the fiscal year as a whole, total GRF sources of $26,662.5 million were $331.6 million (1.2%) below estimate. Compared to FY 2007, total GRF sources were up by $884.1 million (3.4%) (Table 2).

Total GRF sources for FY 2008 include $21,018.6 million (78.8%) in state-source receipts and $5,643.9 million (11.2%) in federal grants.[1] State-source receipts were $166.1 million (0.8%) below estimate and federal grants were $165.6 million (2.9%) below estimate, primarily because state Medicaid spending was below estimate. Compared to FY 2007, state-source receipts were up by $592.7 million (2.9%) while federal grants were up by $291.4 million (5.4%).

Tax revenues of $19,419.5 million for FY 2008, accounting for 92.4% of state-source receipts, were $238.4 million (1.2%) below estimate. Kilowatt hour excise, foreign insurance, and business and property taxes performed above estimate by $8.6 million (3.9%), $4.3 million (1.6%), and $2.3 million (11.3%), respectively. All other taxes performed below estimate, including underages of $79.3 million (9.5%) in corporate franchise tax, $40.8 million (4.1%) in auto sales tax, $31.8 million (0.3%) in personal income tax, $25.7 million (0.4%) in nonauto sales and use tax, $20.2 million (11.3%) in public utility tax, $19.1 million (2.0%) in cigarette tax, $18.6 million (23.3%) in estate tax, and $16.4 million (9.6%) in domestic insurance tax. Compared to FY 2007, tax revenues were down by $49.4 million (0.3%).

Nontax revenues and transfers in account for the remaining 7.6% of state-source receipts. Nontax revenues totaled $364.1 million in FY 2008. Of this amount, $169.6 million came from earnings on investment, which were below estimate by $4.4 million (2.6%) and also below FY 2007 earnings by $6.6 million (3.8%). Transfers in totaled $1,235.0 million in FY 2008, which were above estimate by $85.3 million (7.4%) and also above FY 2007 transfers in by $675.5 million (120.7%).

Personal Income Tax

GRF received $9,114.7 million from the personal income tax in FY 2008. This amount was $31.8 million (0.3%) below estimate. The personal income tax revenue is equal to gross collections after subtracting both refunds and distributions to the local government funds. Gross collections are the sum of withholding, quarterly estimated

[1] Federal grants are federal reimbursements for programs such as Medicaid and Temporary Assistance for Needy Families (TANF). The amount received depends on expenditures for human services programs that require federal participation. Any changes in state spending in these areas will change receipts from federal grants.

payments,[2] trust payments, payments associated with annual returns, and miscellaneous payments. The table below summarizes FY 2008 income tax revenue variances and annual changes by components. Note that the $102.0 million decrease in distributions to the local government funds was due to changes in the distribution formula enacted in H.B. 119.

FY 2008 Income Tax Revenue Variances and Annual Changes by Component				
Category	FY 2008 Variance		Changes from FY 2007	
	Amount ($ in millions)	Percentage (%)	Amount ($ in millions)	Percentage (%)
Withholding	$20.6 below	0.3%	$35.4	0.5%
Quarterly Estimated Payments	$39.2 below	2.4%	$20.2	1.3%
Trust Payments	$19.1 above	21.5%	– $24.2	–18.3%
Annual Return Payments	$76.0 above	5.4%	$116.9	8.6%
Miscellaneous Payments	$0.8 above	0.9%	$6.0	6.9%
Gross Collections	**$36.1 above**	**0.3%**	**$154.3**	**1.4%**
Less Refunds	$74.7 above	6.4%	$27.5	2.3%
Less Local Government Fund Distribution	$6.8 below	0.9%	– $102.0	–12.2%
Income Tax Revenue	**$31.8 below**	**0.3%**	**$229.4**	**2.6%**

Sales and Use Tax

Continuing high gasoline and food prices, a weak housing industry, and poor general economic conditions restrained spending on taxable items in the second half of the fiscal year, leading to the underperformance of the sales and use tax for the whole fiscal year. In the first half of FY 2008, receipts from the sales and use tax were 0.4% above estimate. However, in the second half, receipts were 2.3% below estimate, leading to $66.5 million (0.9%) below estimate for FY 2008 as a whole.

Sales and use tax revenue slumped in the second half of FY 2008.

Total sales and use tax revenues of $7,614.1 million for FY 2008, however, were $189.7 million (2.6%) above FY 2007 receipts. Through December 2007, receipts were up 4.9% compared to receipts through December 2006. In the second half of FY 2008, receipts were slightly ahead of receipts during the same period in FY 2007. In recent years, the growth of the sales and use tax taxable base has consistently been below the long-term trend growth of 4% to 4.5% per year. The taxable base grew approximately 2.9% and 0.4% in FY 2006 and FY 2007, respectively. The FY 2008 growth rate was also well below the trend.

For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections[3] arise from the sale of motor vehicles. Nonauto sales and use tax collections arise from other sales. Auto taxes arising from

[2] Quarterly estimated payments are made by taxpayers who expect to be underwithheld by more than $500. Payments are due on or before April 15, June 15, and September 15 of the tax year and January 15 of the following year. These payments are usually made by taxpayers with significant nonwage income. This income often comes from investments, especially capital gains realized in the stock market. Most estimated payments are made by high-income taxpayers.

[3] The clerks of court generally make auto and use tax payments on Monday for taxes collected during the preceding week on motor vehicles, watercraft, and outboard motors titled. Therefore, auto sales and use tax receipts largely reflect vehicles sold and titled during the month.

leases are paid at the lease signing and are mostly recorded under the nonauto tax, instead of the auto tax.

Nonauto Sales and Use Tax

The performance of the nonauto sales and use tax was mediocre in FY 2008. Receipts of $6,670.7 million for FY 2008 were $25.7 million (0.4%) below estimate. Consumers spent a higher share of their income on nontaxable items such as food, gasoline, and healthcare. Spending supported by the housing industry and mortgage equity withdrawals weakened considerably. Reduced activity in residential and nonresidential construction decreases spending on taxable "big ticket" items such as appliances and furniture. Declines in equity withdrawals curtail spending on housing-related remodeling and expenditures. During the second half of the fiscal year, consumer fundamentals (primarily employment, unemployment, wage growth, and income gains),[4] which determine nonauto sales and use tax receipts, deteriorated rapidly. From January to June 2008, nonauto sales and use tax receipts were 2.1% below estimate, erasing the accumulated positive variance (1.3%) from July through December 2007.

FY 2008 receipts were $167.8 million (2.6%) above receipts in FY 2007. However, after adjusting for the change in local government fund allocations, annual growth was closer to 2.0%. On a year-ago basis, from January to June 2008, FY 2008 receipts were 0.2% below receipts in the second half of FY 2007, in contrast to the positive variance of 5.4% through December 2007.

Auto Sales and Use Tax

Vehicle sales in Ohio plunged in June to levels not seen in several years, another sharp sign that consumers are pulling back. Sales of light trucks decreased because of the $4.00 per gallon price for gasoline, as buyers continued their shift from large sports utility vehicles to gas-sipping small sedans. FY 2008 auto sales and use tax receipts totaled $943.5 million, including $18.4 million from a new tax started in August 2007 on nonresidents' purchases. Receipts for FY 2008 were $40.8 million (4.1%) below estimate. Similar to the nonauto sales and use tax, auto sales and use tax receipts weakened at the start of CY 2008. Receipts in FY 2008 were $21.9 million (2.4%) above receipts in FY 2007. However, adjusting for the change in local government fund allocations, FY 2008 receipts were about flat with FY 2007.

Nationwide sales of light vehicles (autos and light trucks) were 6.8% below unit sales in FY 2007. Sales of auto and light trucks declined 2.3% and 10.8%, respectively. Persistently high gasoline prices weighed heavily on light truck sales. The share of light truck sales was 50.6% in FY 2008, down from 52.9% in FY 2007. The share of light truck sales has been declining in recent years. For example, in FY 2005, light truck sales were 55.6% of total unit sales. The decrease in total unit sales and the increased share of auto sales (the average unit price of autos is lower than that of light trucks) both contributed to depress the auto sales and use tax base. The drag on the auto tax base from high gasoline prices and current economic conditions may continue in the next few months. The percentage of consumers planning to buy a vehicle fell in June

[4] Recent trends in employment have not been favorable, the unemployment rate increased, wage growth slowed, and real disposable income growth has been anemic.

2008 to the lowest on record.[5] Thus, a resurgence in vehicle sales may be unlikely in the near term.

Corporate Franchise Tax

FY 2008 receipts from the corporate franchise tax (CFT) were $753.5 million, $79.3 million (9.5%) below estimate. Most of the accumulated negative variance occurred in the first half of the year when refunds exceeded receipts by $69.1 million. FY 2008 receipts were also $323.0 million (30.0%) below receipts in FY 2007, primarily due to the 60% cut in the CFT tax rate for nonfinancial corporations. H.B. 66 of the 126th General Assembly phased out over five years the CFT for nonfinancial corporations, while maintaining the tax for financial corporations.

The performance of the CFT was spectacular in the FY 2006-FY 2007 biennium. Nonfinancial corporations paid 80% and 60% of their full tax liability in FY 2006 and FY 2007, respectively. Despite the rate cuts, strong corporate profits in CY 2005 and CY 2006 increased CFT receipts by 0.3% in FY 2006 and 2.0% in FY 2007. However, corporate profits peaked and then started declining in CY 2007, thus leading to less than estimated CFT receipts in FY 2008. Banks and other financial companies, which are not affected by the phase-out, have been particularly affected by the profit decline. For CY 2007, profits for financial firms declined 2.4%, while profits for nonfinancial firms declined only 1.2%.[6] Because of the phase-out of the tax for nonfinancial corporations, the contribution of financial corporations to total CFT receipts is increasing each fiscal year.[7] The continuing troubles of banks and financial institutions will also affect CFT receipts next year.

Public Utility Excise Tax

GRF revenue from the public utility excise tax was $157.7 million during FY 2008, which was $20.2 million (11.3%) below estimate, and $2.5 million (1.6%) less than FY 2007 receipts. Natural gas utilities contributed about 97% of all revenue under the tax. The shortfall was due primarily to more moderate natural gas prices than was expected. The U.S. Energy Information Administration (EIA) forecast in May 2007 that residential natural gas prices in the East North Central region would average $12.38 per thousand cubic feet in the fourth quarter of 2007 (which approximately corresponds to the period generating the gross receipts that are the tax base for the third quarter of FY 2008). The same agency reported that actual prices for that period and region averaged $11.36, or 8.2% less than was forecast in May. Similarly, average prices reported for commercial and industrial customers in the fourth quarter of 2007 were 14.0% and 7.8% less, respectively, than were forecast in May. The forecast for prices in the first quarter of 2008 was also low compared with forecasts made in May 2007: average prices were 7.3%, 10.2%, and 8.5% lower than were forecast for residential, commercial, and industrial customers, respectively, in the first quarter. Also contributing to the revenue shortfall was the fact that natural gas usage by residential and commercial customers was significantly below its long-term average level in October 2007.

Public utility excise tax revenue was below estimate due to lower than expected natural gas prices.

[5] According to the latest Conference Board Survey.

[6] Data are from the Bureau of Economic Analysis of the United States Department of Commerce.

[7] In TY 2005, the contribution of financial firms to the CFT receipts was about 13%. In TY 2008, the contribution of financial firms is expected to be about 20%.

Kilowatt Hour Tax

GRF revenue from the kilowatt hour tax was $231.2 million during FY 2008, which was $8.6 million (3.9%) above estimate, but $95.7 million (29.3%) less than FY 2007 receipts. Total (i.e., all funds) receipts from the kilowatt hour tax increased by 2.0% from FY 2007 to FY 2008. The sharp decline for GRF receipts from last year was due to changes to the distribution to local government funds. For accounting purposes, receipts from this tax are debited for one-half the amount to be deposited into the Public Library Fund (formerly known as the Library and Local Government Support Fund). This accounting change was implemented during FY 2008 in association with the local government fund distribution changes made by H.B. 119.

The fact that GRF receipts from this tax were above estimate reflects in part a shortfall in overall GRF tax receipts in the second half of the fiscal year compared to estimates. The shortfall means that the debit against the revenue from this tax for distributions to the Public Library Fund was smaller than expected. The variance appears to include also greater-than-expected growth in either electricity usage, or in electricity prices paid by large electricity users who self-assess the tax, or both.

Foreign and Domestic Insurance Taxes

The foreign insurance tax brought in $267.3 million in revenue for FY 2008 and the domestic insurance tax brought in $154.6 million. The foreign insurance tax is levied on insurance companies headquartered in another state, while the domestic tax is levied on insurers headquartered in Ohio. Receipts from the foreign insurance tax were $4.3 million (1.6%) above estimate while those from the domestic tax were $16.4 million (9.6%) below estimate.

The shortfall from the domestic tax was due primarily to two factors. First, consumers have continued a trend away from choosing HMO-style health coverage, leading to a continued loss of revenue under the tax from health insuring corporations (HICs). Second, an Ohio-based HIC was merged into a Pennsylvania-based HIC, which had the effect of shifting some revenue from the domestic tax to the foreign tax. Total receipts from the two taxes combined were $421.9 million, down 0.9% from FY 2007. Receipts from the foreign insurance tax were $11.1 million (4.3%) above FY 2007 receipts. Receipts from the domestic insurance tax were $14.9 million (8.8%) below FY 2007 receipts.

The timing of receipts from the domestic insurance tax was unusual this year. Nearly the full amount of the tax is typically received in May of each fiscal year, but this year nearly the full amount was received in June. This delay in receiving the revenues resulted in the substantial shortfall for the month of May shown in last month's edition of *Budget Footnotes* and in the substantial overage shown in June's revenue. Tax liabilities of domestic insurers were certified to the Treasurer's office before the first Monday of May, the deadline set by statute. The delay in receipts was apparently due to a longer-than-normal period of time for the Treasurer's office to prepare the invoices. Comparing the certified total tax liability amount and the amount collected through June suggests that the state may receive some additional revenue from domestic insurers in July.

Cigarette and Other Tobacco Products Tax

FY 2008 receipts from the cigarette and other tobacco products tax were $950.9 million, $19.1 million (2.0%) below estimate. Revenues from the cigarette excise tax were about $913.0 million (96% of total receipts). Revenues from the tax on other tobacco products were approximately $38.0 million (4% of total receipts). Revenues from the cigarette and other tobacco products tax declined 3.6% in FY 2008. Increases in cigarette prices and a smoking ban in public places have negatively affected the consumption of taxed cigarettes in the last two years. Receipts from cigarette sales decreased 3.2% in FY 2007 and 4.6% in FY 2008. Conversely, receipts from the tax on other tobacco products have increased each year, primarily due to increases in manufacturer prices. Receipts from the tax on other tobacco products grew about 20% in FY 2008.

Commercial Activity Tax

H.B. 66 of the 126th General Assembly created the commercial activity tax (CAT), a privilege tax on business entities operating in Ohio. The tax is being phased in over five years, with taxable entities paying a higher tax rate each year. Taxpayers paid 60% of their CAT liability in FY 2008, up from 40% in FY 2007. Through FY 2011, revenues from the CAT are earmarked for reimbursing school districts and other local government for the reductions and phase-out of local taxes on most tangible personal property.[8] FY 2008 CAT receipts were $959.6 million, $31.3 million (3.2%) below estimate. The performance of this tax became progressively worse during the fiscal year. Through December 2007, CAT receipts were 0.5% below estimate. In the third and fourth quarters of FY 2008, receipts were about 5.4% and 7.4% below estimate, respectively. Receipts have largely mirrored the recent economic downturn. The underperformance of the tax was also due to lower than anticipated receipts from gasoline sales that became part of the tax base in FY 2008.

CAT revenue was below estimate for the first time since inception.

Alcoholic Beverage Tax

Receipts from the alcoholic beverage tax were $56.8 million in FY 2008, $1.2 million (2.0%) below estimate, but $0.5 million (0.9%) above FY 2007 receipts. Like most consumer discretionary products, sales of beer, wine, and spirits have been hurt by spiking fuel prices, rising unemployment, and pervasive worries about the economy. Beer sales have been flat. Beer and malt beverages generate about 83% of the total alcoholic beverage tax receipts. The next largest revenue source is the tax on wines at about 10%, followed by mixed beverages at about 5%. The remaining 2% comes from sales of vermouth, sparkling wines, and cider.

Liquor Gallonage Tax

Liquor gallonage tax receipts were $35.0 million in FY 2008, which were $0.5 million (1.5%) below estimate, but $0.6 million (1.9%) higher than FY 2007 receipts. Liquor sales have increased each year, as the market share for spirits grows at the expense of beer sales.

[8] CAT receipts are distributed to the School District Tangible Property Tax Replacement Fund (70%) and to the Local Government Tangible Property Tax Replacement Fund (30%).

Business and Property Tax

The business and property tax (also called the dealers in intangibles tax) is imposed on businesses (excluding financial institutions and insurance companies) engaged in lending money or buying and selling notes, mortgages, and securities. The distribution of receipts from the eight-mill tax depends on the taxpayer. All taxes paid by "qualified" dealers[9] are credited to GRF. For "nonqualified" dealers, a share of the tax revenues, three mills, is deposited into GRF. Revenues from the remaining five mills are distributed to counties.

GRF receipts from the dealers in intangibles tax were $22.3 million in FY 2008, including $14.8 million from qualified dealers and $7.3 million from nonqualified dealers. FY 2008 receipts were $2.2 million (11.3%) above estimate, and also $1.5 million (4.8%) above FY 2007 receipts. Receipts from qualified dealers increased $2.0 million (15.6%) while receipts from nonqualified dealers decreased $0.5 million (6.3%). Revenue growth from this tax is highly dependent on investments by financial institutions and insurance companies in their subsidiary dealers and changes in the mortgage industry.

Estate Tax

In FY 2008, GRF received $61.4 million from the estate tax. This amount was $18.6 million (23.3%) lower than estimate, and $10.8 million (14.9%) below FY 2007 receipts. Low interest rates and the housing market slump may have affected the estate tax revenue. The estate tax is one of the more volatile state revenue sources as the estate of a very wealthy individual can account for 10% or more of the total state estate tax revenue. This tax revenue depends on an estate's value at the time a person dies and the time of the settlement made by each county with the state.

Earnings on Investments

In FY 2008, revenue from earnings on investments was $169.6 million, which was $4.4 million (2.6%) lower than estimate and $6.6 million (3.8%) lower than FY 2007 receipts. The underperformance was due to reduced state revenues, which gave the state less to invest, and lower than anticipated average yields.

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[9] A "qualified" dealer is a dealer that is a member of a "controlled group" of which a financial institution or insurance company is a member.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of June 2008
($ in thousands)
(Actual based on OAKS reports run July 11, 2008)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary, Secondary, and Other Education	$231,183	$489,220	-$258,037	-52.7%
Higher Education	$168,462	$174,494	-$6,032	-3.5%
Total Education	$399,645	$663,714	-$264,069	-39.8%
Public Assistance and Medicaid	$384,880	$836,774	-$451,894	-54.0%
Health and Human Services	$52,194	$74,466	-$22,271	-29.9%
Total Welfare and Human Services	$437,074	$911,239	-$474,165	-52.0%
Justice and Public Protection	$92,836	$126,784	-$33,948	-26.8%
Environment and Natural Resources	$1,797	$5,056	-$3,259	-64.5%
Transportation	$445	$1,210	-$765	-63.2%
General Government	$12,516	$17,283	-$4,767	-27.6%
Community and Economic Development	$9,849	$6,986	$2,863	41.0%
Capital	$0	$120	-$120	-100.0%
Total Government Operations	$117,443	$157,439	-$39,995	-25.4%
Tax Relief and Other	$66,777	$152,258	-$85,481	-56.1%
Debt Service	$81,084	$100,334	-$19,250	-19.2%
Total Other Expenditures	$147,861	$252,593	-$104,732	-41.5%
Total Program Expenditures	**$1,102,023**	**$1,984,985**	**-$882,961**	**-44.5%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$69,608	$0	$69,608	---
Total Transfers Out	$69,608	$0	$69,608	---
TOTAL GRF USES	**$1,171,631**	**$1,984,985**	**-$813,353**	**-41.0%**

* August 2007 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

40% of total GRF program spending is for Public Assistance and Medicaid; 27% is for Primary, Secondary, and Other Education.

Table 4: General Revenue Fund Uses
Actual vs. Estimate
FY 2008 as of June 30, 2008
($ in thousands)
(Actual based on OAKS reports run July 11, 2008)

PROGRAM	Actual	Estimate*	Variance	Percent	FY 2007	Percent Change
Primary, Secondary, and Other Education	$6,854,351	$7,029,717	-$175,366	-2.5%	$6,848,178	0.1%
Higher Education	$2,551,907	$2,645,449	-$93,542	-3.5%	$2,404,734	6.1%
Total Education	$9,406,258	$9,675,166	-$268,908	-2.8%	$9,252,913	1.7%
Public Assistance and Medicaid	$10,274,835	$10,693,857	-$419,022	-3.9%	$10,173,997	1.0%
Health and Human Services	$1,278,394	$1,323,262	-$44,868	-3.4%	$1,263,753	1.2%
Total Welfare and Human Services	$11,553,229	$12,017,119	-$463,890	-3.9%	$11,437,750	1.0%
Justice and Public Protection	$2,063,545	$2,061,462	$2,083	0.1%	$2,017,479	2.3%
Environment and Natural Resources	$101,584	$107,845	-$6,261	-5.8%	$102,427	-0.8%
Transportation	$22,627	$27,668	-$5,041	-18.2%	$22,255	1.7%
General Government	$357,730	$381,912	-$24,182	-6.3%	$360,753	-0.8%
Community and Economic Development	$133,771	$153,144	-$19,373	-12.7%	$141,890	-5.7%
Capital	$146	$1,683	-$1,538	-91.3%	$134	8.9%
Total Government Operations	$2,679,404	$2,733,715	-$54,311	-2.0%	$2,644,937	1.3%
Tax Relief and Other	$1,406,925	$1,284,896	$122,029	9.5%	$1,230,010	14.4%
Debt Service	$679,200	$720,347	-$41,148	-5.7%	$581,910	16.7%
Total Other Expenditures	$2,086,125	$2,005,243	$80,882	4.0%	$1,811,920	15.1%
Total Program Expenditures	**$25,725,015**	**$26,431,243**	**-$706,228**	**-2.7%**	**$25,147,519**	**2.3%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$394,034	-100.0%
Other Transfers Out	$688,399	$466,800	$221,599	47.5%	$332,726	106.9%
Total Transfers Out	$688,399	$466,800	$221,599	47.5%	$726,759	-5.3%
TOTAL GRF USES	**$26,413,414**	**$26,898,043**	**-$484,629**	**-1.8%**	**$25,874,279**	**2.1%**

* August 2007 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

Expenditures

*— Philip A. Cummins, Economist, 614-387-1687**

Overview

For the month of June, GRF uses of $1,171.6 million were $813.4 million (41.0%) below the estimate made by OBM in August 2007 (Table 3). For the full fiscal year, GRF uses of $26,413.4 million were $484.6 million (1.8%) below estimate (Table 4). FY 2008 GRF uses include $25,725.0 million in program expenditures, which were $706.2 million (2.7%) below estimate. Program expenditures were 97.4% of total FY 2008 GRF uses, with transfers out of $688.4 million accounting for the rest. The $706.2 million underage in program expenditures was in part a consequence of the executive-ordered spending reductions, which as of February were expected to total about $202 million for FY 2008. Spending below estimate was also in part due to differences between estimated and actual timing of expenditures, resulting in higher than expected encumbrances. As of June 30, 2008, GRF encumbrances totaled $874.5 million (see below for details). These encumbered funds will be available for spending in FY 2009.

GRF program expenditures in FY 2008 were $706.2 million (2.7%) under estimate.

For reporting purposes, GRF program expenditures are grouped into 12 categories. Of the $25,725.0 million in total program expenditures in FY 2008, $21,744.6 million (84.5%) occurred in the following four areas: $10,274.8 million (39.9%) in Public Assistance and Medicaid, $6,854.4 million (26.6%) in Primary, Secondary, and Other Education, $2,551.9 million (9.9%) in Higher Education, and $2,063.5 million (8.0%) in Justice and Public Protection. In FY 2008, only two categories finished the year above estimate. Tax Relief and Other expenditures of $1,406.9 million were $122.0 million (9.5%) above estimate, mainly as a result of the expansion of the homestead exemption under H.B 119, the effects of which were not included in the original estimates. Justice and Public Protection expenditures were $2.1 million (0.1%) above estimate. The Department of Rehabilitation and Correction, which is the largest agency within the Justice and Public Protection category, expended $1,547.4 million in FY 2008, $8.0 million (0.5%) above estimate, due in part to the increasing inmate population which reached 50,404 at the end of the fiscal year.

FY 2008 expenditures in the other ten categories were all below estimate. In addition to the executive-ordered budget reductions and timing issues, some program related factors also contributed to underages in certain program categories. Expenditures were lower than estimate for the year in Public Assistance and Medicaid by $419.0 million (3.9%). Of this amount, GRF expenditures for Medicaid were $346.6 million (3.6%) under estimate. Medicaid spending accounts for about 90% of outlays in the Public Assistance and Medicaid program category. The large variance in Medicaid can be attributed mainly to the delay of the final FY 2008 Medicaid payment of $434 million to July 1. Although $304 million of the FY 2008 GRF appropriation was encumbered into FY 2009, this final FY 2008 payment was made using FY 2009 appropriations. Medicaid spending estimates reflected an assumption that various Medicaid coverage expansions and rate increases for hospitals and community providers would be implemented in January 2008. Most of these expansions and the rate increases have been delayed, but resulting spending reductions were offset by higher than expected caseloads and unrealized cost savings. Among Medicaid categories, FY 2008 spending

The last FY 2008 Medicaid payment of $434 million was disbursed July 1 using FY 2009 appropriations, contributing to the below-estimate FY 2008 spending variance.

in the Nursing Facilities category was $127.9 million (4.8%) below estimate, some of which was attributed to coding changes in nursing facilities' bills from Medicaid, which shifted some expenditures from Nursing Facilities to the All Other service category. End-of-year expenditures exceeded estimate by $189.8 million (24.6%) for inpatient hospitals and by $55.2 million (18.7%) for outpatient hospitals. Contributing to the end-of-year variance for hospital expenditures, $35.1 million of inpatient and outpatient hospital claims were budgeted for FY 2007 but paid in FY 2008. For the non-Medicaid portion of the Ohio Department of Job and Family Services (ODJFS), expenditures in FY 2008 were $72.4 million below the estimate, of which $30.3 million is attributed to the budget reductions.

Expenditures in FY 2008 in Primary, Secondary, and Other Education were below estimate by $175.4 million (2.5%), partly attributable to lower than expected enrollments. Higher Education outlays were below estimate by $93.5 million (3.5%) largely because of startup delays in scholarship grant programs established in H.B. 119 – the Choose Ohio First Scholarship, Ohio Research Scholars, and James A. Rhodes Scholarship programs – that resulted in the lapse of about $90 million in appropriations. Spending on debt service was lower than estimate by $41.1 million (5.7%), as a result of last year's securitization of future proceeds from the 1998 settlement with tobacco companies, which lowered the amount of debt that would otherwise have been issued for which debt service payments would have been made from GRF.

Encumbrances

As indicated above, encumbrances in the General Revenue Fund as of June 30, 2008, totaled $874.5 million. The table below summarizes these encumbrances by the fiscal year for which funds were originally appropriated. As can be seen from the table, most of the total was originally appropriated for FY 2008, but smaller amounts were first appropriated for earlier years back to FY 2000.

FY 2008 Year-End Encumbrances by Fiscal Year for Which Appropriations Were Originally Made

Fiscal Year	Amount	% of Total
FY 2000	$210,860	0.0%
FY 2001	$460,841	0.1%
FY 2002	$363,248	0.0%
FY 2003	$920,763	0.1%
FY 2004	$1,683,760	0.2%
FY 2005	$7,602,379	0.9%
FY 2006	$28,696,962	3.3%
FY 2007	$54,883,996	6.3%
FY 2008	$779,669,271	89.2%
Total	**$874,492,081**	**100.0%**

The amount of encumbrances varies greatly from agency to agency. As shown in the table below, ODJFS encumbered $505.6 million, 57.9% of the total, followed by the Department of Education at $169.4 million (19.4%) and the Department of Development at $107.0 million (12.2%). These three agencies account for 80.0% of the total encumbrances. Including the Board of Regents, the Department of Rehabilitation and Correction, the Department of Transportation, the Department of Health, the Arts

Council, the Department of Taxation, and the Department of Aging, these ten agencies encumbered a combined amount of $854.6 million, 97.7% of the total. All other agencies encumbered the remaining $19.9 million, 2.3% of the total. The top ten agencies' encumbrances are discussed in the sections that follow.

FY 2008 Year-End Encumbrances by Agency		
Agency	**Amount**	**% of Total**
Job and Family Services	$505,569,572	57.9%
Education	$169,419,245	19.4%
Development	$106,983,522	12.2%
Board of Regents	$20,995,470	2.4%
Rehabilitation and Correction	$17,887,416	2.0%
Transportation	$11,864,137	1.4%
Health	$9,377,562	1.1%
Arts Council	$5,590,447	0.6%
Taxation	$3,816,019	0.4%
Aging	$3,050,236	0.3%
All other agencies	$19,938,516	2.3%
Total	**$874,492,081**	**100.0%**

Job and Family Services

ODJFS encumbered $475.8 million from FY 2008 appropriations and $29.8 million from previous fiscal years for a total of $505.6 million in encumbrances to be carried into FY 2009. The largest encumbrance is the $304.3 million from GRF line item 600-525, Health Care/Medicaid, accounting for almost 64% of encumbered FY 2008 appropriations. As noted above, the final FY 2008 Medicaid payment for managed care was paid with FY 2009 appropriations. As a result, GRF line item, 600-525, HealthCare/Medicaid, had an available balance of $304.3 million at the end of FY 2008. Encumbering this $304.3 million has made these funds available for Medicaid expenditures in FY 2009. Otherwise, this $304.3 million would have lapsed and become part of the unobligated GRF cash balance.

Other sizable encumbrances from FY 2008 appropriations include $38.3 million for health care program management ($5.7 million of which is to pay for an early retirement incentive plan), $31.8 million for information technology purchases for non-health care program management, and $31.0 million for Medicare Part D payments. Some smaller encumbrances made by ODJFS include $7.0 million for adoption services, $7.0 million for food programs, $6.8 million for the Disability Medical Assistance program, and $5.0 million for child support activities.

Education

The Department of Education (ODE) encumbered $169.4 million, including $74.4 million under the Foundation Funding program to meet FY 2007 and FY 2008 potential year-end formula payment adjustments, $9.4 million more than estimated. In addition, ODE encumbered $33.4 million in the Student Assessment program to pay contractors for scoring tests this summer that were administered in the spring and other expenses of the state's testing program, $12.5 million for Literacy Improvement

– Professional Development activities, and smaller amounts for reading improvement, purchase or lease of school buses, and preschool programs for low income children.

Development

The Department of Development (DOD) encumbered almost $107.0 million. The vast majority of this is due to timing issues associated with grants and other financial assistance awards. Many of DOD's grant programs are operated on a reimbursement basis, under which grantees must carry out the program and verify that certain requirements or objectives have been met before they are reimbursed by the state. A grantee may be awarded grants in FY 2008, for instance, but not receive them until FY 2009 or later, depending on the scope of a project. The three programs carrying over the largest encumbrances into FY 2009 are the Third Frontier Action Fund ($29.6 million), the Rapid Outreach Grant program ($27.2 million), and the Ohio Investment in Training program ($22.6 million).

Board of Regents

The Board of Regents encumbered $21.0 million, mostly to meet the state's obligation to fund scholarships under the Ohio Instructional Grants program ($10.9 million), the National Guard Scholarship Program ($4.9 million), and the Ohio College Opportunity Grant program ($2.6 million). The Ohio College Opportunity Grant, a need-based student financial aid program, is being phased in, replacing the Ohio Instructional Grants.

Rehabilitation and Correction

The Department of Rehabilitation and Correction encumbered $17.9 million for expenditures during FY 2009, largely for end-of-year maintenance, equipment, and utility purchases that support ongoing operations in the prison system's 30-plus correctional institutions. Many of these institutions purchase utilities on a quarterly or semi-annual basis, and encumbered funds are for final payments contracted during the fiscal year.

Transportation

The Department of Transportation encumbered $11.9 million for expenditures in FY 2009, of which $8.8 million was originally appropriated for FY 2008. The remaining $3.1 million was originally appropriated for fiscal years prior to FY 2008. Almost all of these appropriations are related to subsidies such as grants and loans for public transit, rail development, and aviation. Smaller amounts are for personal service contracts for administrative support services for the Ohio Rail Development Commission (ORDC) and other transit-related services, and supplies and maintenance for ORDC.

Health

The Department of Health (ODH) encumbered $9.4 million at the end of FY 2008, of which $6.3 million occurred in line item 440-418, Immunizations, $0.8 million more than originally planned. The encumbrance variance is timing related and happens almost every year in the process of ordering vaccines for the high-usage period just prior to the start of the school year.

Arts Council

The Ohio Arts Council encumbered $5.6 million at the end of FY 2008 due to timing issues related to arts subsidy grants. This money is for payment of grants awarded in FY 2008.

Taxation

Most ($2.8 million) of the Department of Taxation's $3.8 encumbrance at the end of FY 2008 was for large computing systems for tax compliance, part of the Department's ongoing program to improve its information systems.

Aging

The Ohio Department of Aging encumbered approximately $3.1 million for FY 2008. Of this amount, $2.5 million is in Senior Community Services, which was a planned encumbrance. Money in this line item is disbursed to area agencies on aging on a calendar year basis, so the encumbrance is timing related.

** Contributors to this expenditures report include: Todd A. Celmar, Economist, 614-466-7358; Brian Hoffmeister, Budget Analyst, 614-644-0089; Edward Millane, Budget Analyst, 614-995-9991; Mary Morris, Budget Analyst, 614-466-2927; Jason Phillips, Budget Analyst, 614-466-9753; Wendy Risner, Senior Budget Analyst, 614-644-9098; and Joseph Rogers, Senior Budget Analyst, 614-644-9099.*

Table 5: Medicaid Spending in FY 2008
($ in thousands)

Medicaid (600-525) Payments by Service Category	June Actual	June Estimate	June Variance	June Percent Variance	Year to Date Actual thru June	Year to Date Estimate thru June	Year to Date Variance	Year to Date Percent Variance
Nursing Facilities	$211,928	$223,856	-$11,928	-5.3%	$2,544,830	$2,672,695	-$127,865	-4.8%
ICFs/MR	$44,764	$44,896	-$132	-0.3%	$531,906	$530,041	$1,865	0.4%
Inpatient Hospitals	$68,085	$71,527	-$3,442	-4.8%	$962,860	$773,016	$189,844	24.6%
Outpatient Hospitals	$25,519	$27,287	-$1,768	-6.5%	$351,207	$295,959	$55,248	18.7%
Physicians	$18,820	$27,903	-$9,083	-32.6%	$303,661	$300,244	$3,417	1.1%
Prescription Drugs	$34,764	$42,359	-$7,595	-17.9%	$468,167	$451,189	$16,978	3.8%
ODJFS Waivers	$23,923	$30,969	-$7,046	-22.8%	$306,439	$327,017	-$20,578	-6.3%
MCP	$26,841	$376,521	-$349,680	-92.9%	$3,844,731	$4,388,898	-$544,167	-12.4%
All Other	$93,350	$117,567	-$24,217	-20.6%	$1,193,040	$1,190,384	$2,656	0.2%
DA Medical	$1,557	$1,428	$129	9.0%	$15,990	$16,467	-$477	-2.9%
Total Payments	$549,551	$964,313	-$414,762	-43.0%	$10,522,831	$10,945,910	-$423,079	-3.9%
Offsets								
Drug Rebates	-$11,101	-$11,333	$232	-2.0%	-$89,071	-$93,000	$3,929	-4.2%
Revenue and Collections	-$6,056	-$6,496	$440	-6.8%	-$51,235	-$51,967	$732	-1.4%
ICF/MR Franchise Fees	-$910	-$910	$0	0.0%	-$7,281	-$7,281	$0	0.0%
NF Franchise Fees	-$21,875	-$21,875	$0	0.0%	-$175,000	-$175,000	$0	0.0%
IMD/DSH Payments	-$7,573	-$12,500	$4,927	-39.4%	-$64,219	-$75,000	$10,781	-14.4%
MCP Assessments	-$36,500	-$28,339	-$8,161	28.8%	-$172,179	-$190,697	$18,518	-9.7%
Health Care Federal	-$130,254	-$125,962	-$4,292	3.4%	-$861,181	-$914,020	$52,839	-5.8%
Total Offsets	-$214,269	-$207,415	-$6,854	3.3%	-$1,420,166	-$1,506,965	$86,799	-5.8%
Total 600-525 (net of offsets)	$335,282	$756,898	-$421,616	-55.7%	$9,102,665	$9,438,945	-$336,280	-3.6%
Medicare Part D (600-526)	$21,353	$21,901	-$548	-2.5%	$243,172	$253,516	-$10,344	-4.1%
Total GRF	**$356,635**	**$778,799**	-$422,164	**-54.2%**	**$9,345,837**	**$9,692,461**	-$346,624	**-3.6%**
Total All Funds	**$570,904**	**$986,214**	-$415,310	**-42.1%**	**$10,766,003**	**$11,199,426**	-$433,423	**-3.9%**

Source: Ohio Administrative Knowledge System
"Actuals" for service categories and offsets calculated by LSC staff

ICFs/MR - Intermediate Care Facilities for the Mentally Retarded
ODJFS - Ohio Department of Job and Family Services
MCP - Managed Care Plan
DA Medical - Disability Medical Assistance
NF - Nursing Facilities
IMD/DSH - Institutions for Mental Disease/Disproportionate Share

Issue Updates

Ohio Research Scholars Awards Announced

— Mary E. Morris, Budget Analyst, 614-466-2927

On May 20, 2008, the Board of Regents (BOR) announced the recipients of the first Ohio Research Scholars awards. The Ohio Research Scholars Program, established as part of the Ohio Innovation Partnership under H.B. 119, provides competitive grants to help institutions of higher education recruit scholars in the fields of science, technology, engineering, mathematics (STEM), and medicine. The program is jointly administered by BOR and the Department of Development. The awards announced total $140.7 million and will be disbursed in FY 2009 to ten research collaborations, including 13 Ohio institutions of higher education and various local industry partners. Each collaboration's lead institution, research subject, scholar number, and award amount are listed in the table below.

Ohio Research Scholars Awards			
Lead Institution	**Research Subject**	**Scholars**	**Award**
Kent State University	Soft matter interfaces	3	$14.4 million
University of Cincinnati	Power and propulsion	5	$27.3 million
University of Toledo	Spinal diseases and devices	1	$4.5 million
University of Toledo	Photonics and photovoltaic science	1	$8.0 million
Ohio State University (OSU)	Materials development	4	$18.2 million
OSU Research Foundation	Advanced energy systems	2	$10.5 million
OSU Research Foundation	Biomedical imaging	5	$24.9 million
University of Dayton	Layered sensing	3	$23.4 million
University of Akron	Orthopaedics	2	$8.6 million
Cleveland State University	Cardiovascular repair and tissue engineering	1	$0.9 million
Total Award		27	**$140.7 million**

Second Round of Choose Ohio First Scholarship Awards Announced

— Mary E. Morris, Budget Analyst, 614-466-2927

On June 26, 2008, BOR announced the recipients of the second round of Choose Ohio First Scholarship awards. The Choose Ohio First Scholarship Program, created as part of the Ohio Innovation Partnership under H.B. 119, is designed to recruit students into the fields of science, technology, engineering, mathematics (STEM), and medicine. The program provides funds to help institutions of higher education recruit Ohio residents as undergraduate or graduate students in those fields. The second-round awards total $25.6 million and are granted to nine collaborative recruiting programs, which include over 25 Ohio institutions of higher education, several school districts, and many local businesses. Each program's lead institution, name, and award amount are shown in the table below. The first round of Choose Ohio First awards was announced in March and reported in that month's issue of this publication. Including the $22.7 million in the first-round, the Choose Ohio First Scholarship Program has awarded a total of $48.3 million. All of these awards will be disbursed in FY 2009.

Choose Ohio First Award Recipients – Second Round		
Lead Institution	**Program Name**	**Award**
University of Cincinnati	Diversifying Yield and Retention in Engineering, Mathematics, and Science	$4.3 million
University of Cincinnati	Strengthening the PK-8 Mathematics and Science Teacher Pipeline	$0.8 million
Kent State University	Integrated Science Training for NE Ohio's Future Biomedical and Biotechnology Workforce	$2.0 million
Cleveland State University	Choose Ohio First Engaged Scholarship Program in Bioscience and Healthcare	$2.0 million
Bowling Green State University	Science & Math Education in Action	$3.0 million
Miami University	Improving STEM Teacher Preparation: A Long Term Investment	$2.7 million
Wright State University	Growing the STEM Pipeline in the Dayton Region	$3.9 million
Ohio State University	Ohio House of Science and Engineering	$3.0 million
University of Toledo	Choose Ohio First for Engineering Entrepreneurship Scholarship	$3.9 million
Total Second Round Award		**$25.6 million**

Board of Regents Sponsors Six Regional STEM Academies

— Mary E. Morris, Budget Analyst, 614-466-2927

This summer, 198 high school juniors and seniors will participate in one of six academies that focus on science, technology, engineering, and mathematics (STEM). These academies are sponsored by the Board of Regents in partnership with eight public universities, three private institutions, and the Ohio Supercomputer Center (see table below). The goal of the academies is to encourage Ohio high school graduates to pursue college-level STEM studies and to become teachers of a STEM discipline. College professors, STEM teachers, and college students studying in STEM fields serve as mentors for students enrolled in the academies. All academies deliver their courses through a combination of intensive summer instruction, ranging from one to three weeks, and follow-up lessons. Upon completion of the courses, participants may receive one unit of high school credit, one quarter or semester of college credit, or both. H.B. 119 earmarked $2.0 million in GRF funding for FY 2008 to support the regional summer academies focusing on STEM and foreign language. These six STEM academies receive approximately $1.6 million. The remaining $400,000 goes to the two foreign language summer academies, as reported in the June issue of this publication.

Regional STEM Academies			
Name of Academy	**Name of Host Institutions**	**Subject**	**Enrollment**
Computational Science and Engineering	Ohio State University University of Akron Ohio Supercomputer Center	Engineering	40
Igniting Streams of Learning	Hiram College Kent State University University of Akron	Science	5
College Science Investigation	Baldwin-Wallace College Cleveland State University	Science	30
Southwest Center of Excellence STEM Teaching	University of Cincinnati Miami University	Mathematics	50
Northeast Ohio Center of Excellence in Mathematics	Cleveland State University Kent State University	Mathematics	25
Southern Ohio Youth STEM and Foreign Language	Shawnee State University Ohio University - Southern campus University of Rio Grande	Mathematics & Science	48

Early College High Schools Receive $7.0 million in FY 2008

—Andrew Plagenz, Budget Analyst, 614-728-4815

The Department of Education (ODE) and BOR awarded approximately $7.0 million in grants to eight early college high schools in FY 2008. These schools, created by partnerships between school districts and universities, provide students who are mainly from disadvantaged backgrounds the opportunity to attend a special high school program that takes place on a college campus. The students follow individualized learning plans in order to graduate from high school with an associate degree or up to two years of college credit. The FY 2008 recipients of these grants and the amounts received are shown in the table below.

FY 2008 Early College High School Grants	
Sponsor	**Award Amount**
Canton City Schools	$0.9 million
Columbus City Schools	$1.3 million
Metro School (Franklin County)	$0.8 million
Toledo Public Schools	$0.7 million
University of Akron	$0.4 million
University of Dayton	$0.9 million
Lorain County Community College	$1.0 million
Youngstown State	$1.0 million
Total Award	**$7.0 million**

H.B. 119 provides funding for these grants through earmarks of two GRF appropriation items: 200431, School Improvement Initiatives, in ODE's budget, and 235434, College Readiness and Access, in BOR's budget. The Early College High School Program was established in collaboration with the KnowledgeWorks Foundation. More information about the program is available at the foundation's web site, http://kwfdn.org/.

Revamped Bureau of Workers' Compensation Long-Term Care Loan Fund Program Attracts Three Participants in FY 2008

— Nick Thomas, Budget Analyst, 614-466-6285

The revamped Bureau of Workers' Compensation (BWC) Long-Term Care Loan Fund Program has attracted three nursing home participants. Launched in September 2007, the program reimburses nursing homes and hospitals for the interest paid on loans used to purchase no-manual-lift devices. Because moving patients is a strenuous requirement and a common source of injury claims, these devices could potentially reduce lift-related injuries at these facilities. Under the program, participants may obtain loans for an amount up to $100,000 and a loan period up to five years. The reimbursable interest rate on the loans is capped at prime plus 2.5%. BWC reimburses participants for interest payments every six months for the life of the loan.

The three nursing homes currently participating in the program have taken out a total of $228,475 in loans. Given the interest terms, FY 2009 reimbursements on these three loans are estimated to be $14,069. H.B. 100, the BWC and Industrial Commission budget act of the 127th General Assembly, appropriated $2 million in FY 2009 for the program. To boost participation, BWC is currently marketing the program to the Ohio Hospital Association, the Association of Ohio Philanthropic Homes, the Ohio Academy of Nursing Homes, and other health care trade groups.

The program was first authorized for nursing homes by H.B. 67, the BWC budget act of the 126th General Assembly. As originally envisioned by BWC, financial institutions would provide interest-free loans to nursing homes with BWC paying the interest. However, BWC received little response from financial institutions. It then altered the rules to allow nursing homes to secure their own loans with BWC reimbursing them for interest payments. H.B. 100 expands the program to include hospitals. The revamped program was launched in September 2007.

Workgroup Recommends New Budget Structure for Long-Term Care

— Wendy Risner, Senior Budget Analyst, 614-644-9098

On May 30, 2008, the Unified Long-Term Care Budget Workgroup issued its final report and recommendations, which include a plan for a new budget structure for the $4.7 billion the state spends annually for long-term care. Among the several hundred recommendations in the report, the Workgroup proposes a five-year plan in three stages to implement the new budget structure.

The first stage, beginning in FY 2009, includes identifying line items in the departments of Job and Family Services, Aging, Mental Health, and Mental Retardation and Developmental Disabilities that currently fund long-term care and transferring, subject to approval of the Controlling Board, funds from these existing line items to new long-term care line items established in those agencies for this purpose by H.B. 119. The second stage, for the FY 2010-FY 2011 biennium, involves appropriating directly to each agency's new long-term care line item rather than individual programs in separate line items, thereby allowing greater flexibility within the agency budget to adjust program spending based on consumer demand. The third stage, for the FY 2012-FY 2013 biennium, entails creation of a single line item in the Department of Job and Family Services' budget to unify all long-term care spending, thereby maximizing flexibility to adjust spending among various programs.

Created in H.B. 119 and led by the Director of Aging, the Workgroup consisted of consumers, providers, advocates, state agencies, legislators, and local entities. The Workgroup was to consider consolidation of agency authority and long-term care budgets to create a more cost-effective and consumer-based system of long-term care with an emphasis on home and community-based care and consumer choice of services. A complete list of recommendations and steps in the implementation process is available in the Unified Long-Term Care Budget Workgroup's final report, "Building a Cost-Effective, Consumer-Friendly Long-Term Services and Supports System," which can be accessed at www.goldenbuckeye.com/ultcb/ULTCB_final_report.pdf.

Ohio Department of Job and Family Services Plans to Move Ahead on Two Medicaid Initiatives in July

— Todd A. Celmar, Economist, 614-466-7358

The Ohio Department of Job and Family Services (ODJFS) is planning to move ahead on the implementation of two Medicaid initiatives in July 2008. The first initiative restores full dental benefits for adults (which was reduced in the FY 2006-FY 2007 biennium) and the second provides a 3% rate increase to community providers. Under H.B. 119, these two initiatives were slated for implementation in January 2008. However, due to increasing caseloads and a projected shortfall in the Medicaid budget over the FY 2008-FY 2009 biennium, ODJFS has postponed the implementation of these two initiatives by six months, to July 2008. ODJFS estimates that the delay of full dental benefits for adults and the community provider rate increase decreased the state share of Medicaid expenditures by $5.3 million and $9.2 million, respectively, in FY 2008.

Utilization Review Program Reduces Prison Medical Services Costs

— Joseph Rogers, Senior Budget Analyst, 614-644-9099

According to the Department of Rehabilitation and Correction (DRC), a utilization review program DRC instituted in FY 2004 has produced net savings of approximately $7.5 million as of March 2008. DRC contracts with Permedion, a company located in Westerville, Ohio, to provide comprehensive precertification of inmate medical services to determine the medical necessity of clinical services and diagnostic procedures requested for inmates and a retrospective review of medical files of inmates who received inpatient care at The Ohio State University Medical Center. The table below presents the savings that DRC has realized from utilizing Permedion's services from September 2004 through March 2008.

The precertification savings in the table below represent the cost of tests and procedures requested by clinicians and subsequently denied after Permedion's precertification review. Without Permedion's precertification review, these tests and procedures would likely have been performed as requested. Permedion's retrospective review of medical files of 480 inmates has resulted in two credits, in the amount of $200,000 each, being awarded to DRC by The Ohio State University Medical Center.

Permedion Service Fees and DRC Medical Costs Savings, FY 2004-FY 2008			
Deliverable	**Service Fees**	**Cost Savings**	**Net Savings**
Comprehensive Precertification	$578,740	$7,723,292	$7,144,552
Retrospective Utilization Review	$47,040	$400,000	$352,960
Total	**$625,780**	**$8,123,292**	**$7,497,512**

Missing Adults Alert System Launched

— Sara D. Anderson, Senior Budget Analyst, 614-728-4812

On June 20, 2008, the Missing Adults Alert System required by S.B. 87 of the 127th General Assembly was launched. This statewide emergency alert system is for the purpose of aiding in the identification and location of missing individuals who have a mental impairment or who are 65 years of age or older. The program is a coordinated effort among the Governor's office, the Department of Public Safety, the Attorney General, law enforcement agencies, and public and commercial television and radio broadcasters.

Among the criteria necessary for the Missing Adults Alert System to be activated is that the investigating law enforcement agency confirm that the individual is missing and there be a determination that the individual is in immediate danger of serious bodily harm or death. When activated, the Department of Public Safety sends messages to law enforcement agencies, media outlets, and participating trucking companies throughout the state, posts information on electronic billboards, signboards, and lottery terminals, and activates a toll-free tip line. The system offers special law enforcement response teams and programs to assist in the search for the missing individual.

Rather than establish and maintain a new program specific to missing adults, the coordinating entities opted to integrate S.B. 87's requirements into the existing AMBER Alert Plan currently in place for locating abducted children. Since its establishment in January 2003, AMBER Alerts have been issued for 117 children and 113 have been recovered.

Mandated Funds Review Triggers Public Safety Cash Transfer Totaling $19.4 million in FY 2008

— Sara D. Anderson, Senior Budget Analyst, 614-728-4812

On June 16, 2008, the Controlling Board approved the transfer of cash totaling $19.4 million from certain Department of Public Safety funds to the Department's State Highway Safety Fund (Fund 7036) and State Bureau of Motor Vehicles Fund (Fund 4W40). H.B. 67, the transportation budget act of the 127th General Assembly, requires the Director of Budget and Management to review, in each year of the biennium, the cash balances of certain funds in the State Highway Safety Fund Group and recommend to the Controlling Board an amount to be transferred to the credit of funds 7036 and 4W40. The June 2008 cash transfer, as well as similar cash balance fund review transfers during the period FY 2005-FY 2007, are summarized in the table below.

The transferring funds generally receive revenues from certain fees or fines that are earmarked for specific purposes. However, state law permits excess balances to be transferred to support the core functions of the State Highway Patrol and the Bureau of Motor Vehicles. Approximately 80% to 86% of the cash amount transferred annually in the last four fiscal years was drawn from the Department's Financial Responsibility Compliance Fund (Fund 8350). This fund receives revenues from fees paid by licensees who fail to provide proof of financial responsibility (such as car insurance).[1]

Public Safety Cash Balance Fund Review Transfers, FY 2005-FY 2008			
Fiscal Year	Total Cash Transfer	Cash Transfer to State Highway Safety Fund (Fund 7036)	Cash Transfer to State Bureau of Motor Vehicles Fund (Fund 4W40)
2005	$17,454,050	$8,400,000	$9,054,050
2006	$22,250,000	$12,250,000	$10,000,000
2007	$22,000,000	$6,000,000	$16,000,000
2008	$19,400,000	$6,000,000	$13,400,000

Capitol Square Review and Advisory Board Assumes Control of Statehouse Tours in June

— Brian Hoffmeister, Budget Analyst, 614-644-0089

On June 1, 2008, the Capitol Square Review and Advisory Board (CSRAB) assumed the responsibility of conducting Statehouse tours. H.B. 562, the recently enacted capital budget act of the 127th General Assembly, transferred the legal authority for conducting Statehouse tours from the Ohio Historical Society (OHS) to CSRAB. It also transferred from OHS to CSRAB three full-time and two part-time tour and education employees and GRF funding of $12,297 for FY 2008 and $144,612 for FY 2009. Free guided tours of the Statehouse are offered Monday through Friday from 10 a.m. to 3 p.m., and on Saturday and Sunday from noon to 3 p.m. Approximately 70,000 people tour the Statehouse annually.

[1] The source and amounts of FY 2008 cash transferred were as follows: Financial Responsibility Compliance Fund (Fund 8350), $15.5 million; Automated Title Processing Fund (Fund 8490), $2.0 million; Highway Safety Salvage and Exchange Highway Patrol Fund (Fund 8410), $1.2 million; State Highway Patrol Contraband, Forfeiture, and Other Fund (Fund 83C0), $500,000; and Law Enforcement Reimbursement Fund (Fund 83R0), $200,000.

Tracking the Economy

— *Ross Miller, Senior Economist, 614-644-7768*

Overview

Nothing in the news about the national economy this month was as alarming as last month's news about the jump in the U.S. unemployment rate to 5.5% in May; in fact, June's unemployment rate remained unchanged at that level. But neither was there any news to inspire great optimism. Despite the steady unemployment rate, payroll employment fell by 62,000 nationally, the sixth straight monthly decline. The slump in the housing market continued. While there may not have been a major crisis in financial markets during the last month, Federal Reserve Chairman Ben Bernanke noted in testimony on July 15 that "many financial markets and institutions remain under considerable stress." And gasoline prices have remained stubbornly high, continuing to apply pressure to household budgets.

U.S. unemploy-ment rate held steady at 5.5% in June.

Since gasoline prices surpassed $4.00 per gallon, it has become clear that consumers are beginning to respond. The American Public Transportation Association announced that Americans took 85 million more trips by public transit during the first quarter of 2008 than they did in the first quarter of 2007, an increase of 3.3%. And the types of vehicles that consumers want to purchase has shifted so suddenly that manufacturers have had difficulty responding. A July 2 article in the *Wall Street Journal* reported that U.S. auto sales dropped by 18% in June. The decline was caused by a substantial drop in sales of light trucks and sport utility vehicles (SUVs), coupled with a shortfall of inventory of fuel efficient cars that consumers are now looking for. Nearly all the major manufacturers suffered sharp drops in sales: General Motors reported a 19% drop, Ford's sales fell by 28%, Chrysler's plunged 36%, and even Toyota experienced a 21% decline. Honda managed to buck the trend, with June sales increasing by 1.1%. General Motors announced production shifts related to the shift in consumer demand last month, as noted in the June edition of *Budget Footnotes*.

Retail sales were fairly solid in May, growing by 1.0% for the month. Because consumer spending is the largest component of gross domestic product (GDP), generally accounting for around two-thirds of GDP, this would seem reassuring regarding the prospects for economic growth looking ahead. However, many analysts attribute the positive May experience to consumers' use of federal economic stimulus checks. Hence, many of those analysts suggest that the boost to the economy may prove temporary.

First quarter growth in U.S. real GDP was revised

The news regarding the Ohio economy was mixed this month. The unemployment rate jumped by 0.8 percentage point from April to June, yet payroll employment increased over the same period. The Federal Reserve's "Beige Book" reported that overall economic activity in the Cleveland District during the weeks leading up to June 11 was stable (the Cleveland District includes all of Ohio, plus parts of three neighboring states). There were notable exceptions to this characterization. Residential housing markets and sales of light trucks and SUVs were both declining during that period. But Fed contacts in the district reported that factory activity, commercial construction business, and retail sales were all steady.

The National Economy

Production and Income

The U.S. Bureau of Economic Analysis (BEA) revised upward the estimate of U.S. real GDP growth[1] for the first quarter of 2008 from (an annualized) 0.9% to 1.0%. The revised growth rate was slightly higher than the 0.6% rate of growth experienced in the fourth quarter of 2007, as was the preliminary estimate released a month ago, but still below the economy's long-term potential growth rate.

Except for gross private domestic investment, which subtracted 1.04 percentage points from growth, all other components of GDP contributed positively to growth, although their contributions were weak: consumer spending contributed 0.81 percentage point to growth, net exports contributed 0.79 percentage point, and government spending contributed 0.41 percentage point. As was true in the preliminary estimate, the drag on the broader economy from investment was attributable entirely to the housing slump. Residential fixed investment subtracted 1.12 percentage points from growth, while the revised figures show nonresidential fixed investment and the change in private inventories were both essentially flat.

The housing slump is familiar to most readers, and the last several issues of *Budget Footnotes* have included a chart showing real GDP growth in recent quarters and the role that residential construction has played in that growth. This issue looks at the effect of nonresidential fixed investment (NFI) on real GDP growth. The chart on the following page is analogous to the one shown in the last few issues, showing real GDP growth and the role that NFI has played in that growth. During the last few years NFI has consistently boosted growth, with the exception of just two quarters. It contributed approximately a percentage point toward overall economic growth in both the second and third quarters of 2007. That boost weakened to about two-thirds of a percentage point in the fourth quarter, and in the most recent quarter NFI contributed just 0.06 percentage point to growth. Next to the consumer spending component of GDP growth, which is all-important, this subcomponent will be worth watching in the coming quarters.

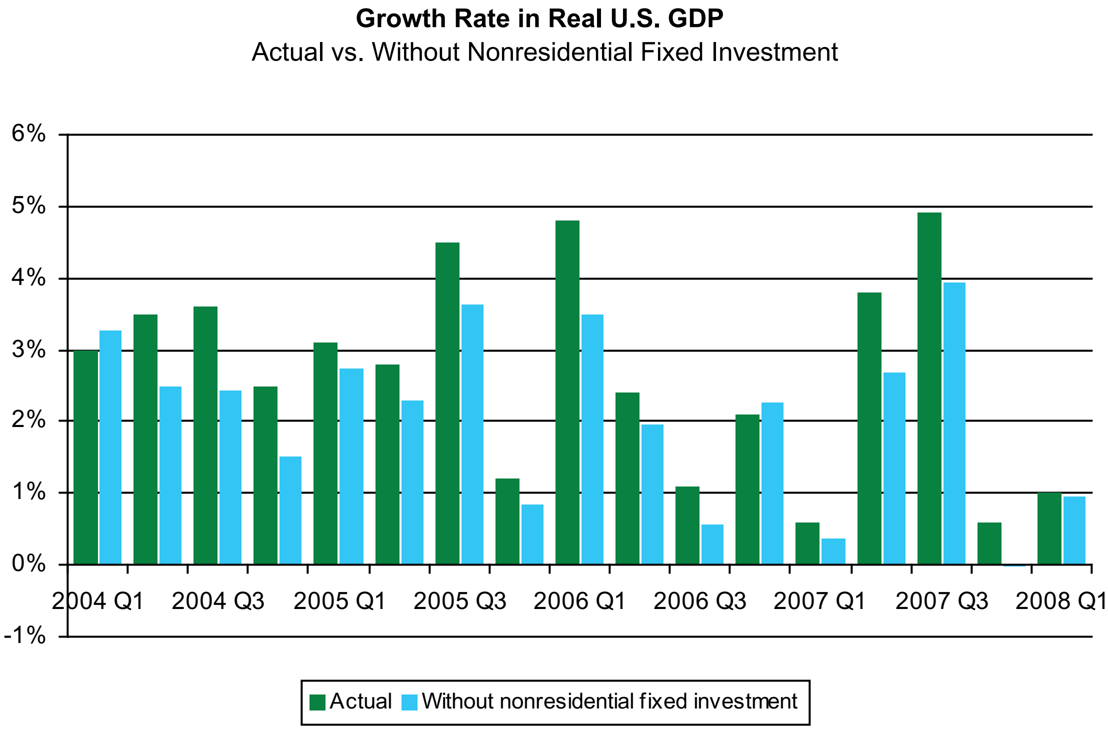
Profits from current production decreased by $5.2 billion, or 0.3%, from the fourth quarter of 2007 to the first quarter of 2008.[2] By comparison, profits fell by $52.9 billion in the fourth quarter. In contrast with the fourth quarter, domestic profits increased during the first quarter by $14.2 billion for financial corporations and by $3.4 billion for nonfinancial corporations. Profits derived from the rest of the world decreased by $22.8 billion. Please note that these figures are not affected by the bonus depreciation provisions of the federal Economic Stimulus Act of 2008, since they are not based on depreciation accounting methods used for federal income tax returns.

Employment and Unemployment

A recent trend continued in June, with payroll employment falling for the sixth straight month. U.S. nonfarm payroll employment fell by 62,000 from May to June,

[1] Economists use the term "real" to indicate that a variable, in this case GDP, has been adjusted for inflation.

[2] These figures are seasonally adjusted and annualized.



after seasonal adjustment. The number of jobs lost since December 2007 increased to 438,000, or 0.3% of December's employment. Employment in goods-producing industries decreased by 69,000 in June; as with the data for May, slightly more jobs were lost in construction than in manufacturing. Employment in service-providing industries increased, but by a slight 7,000, and an increase in government employment[3] of 29,000 means that private service-providing employment fell. Gains of 29,000 in the number of jobs in education and health services and 24,000 in leisure and hospitality were more than offset by declines of 51,000 in professional and business services and 10,000 in financial activities.

The unemployment rate remained unchanged at 5.5% in June, after its sharp jump from 5.0% to 5.5% in May. The number of U.S. workers unemployed increased 12,000 to 8.5 million in June; there were slightly under 7.0 million unemployed workers a year ago in June 2007. The number of workers unemployed for longer than 27 weeks increased by 37,000 for the month, to 1.6 million.[4]

Retail Sales

U.S. retail and food services sales increased by 1.0% in May,[5] to a level 2.5% higher than May 2007. Total sales for the three months ending in May were 2.6% greater than during the corresponding three months of 2007. Sales growth for the most recent month was widespread, if perhaps unspectacular, across sectors. Growth exceeded 1% for gasoline stations (sales of which grew by 2.6%), building material and

[3] Government is classified as a service-providing industry rather than a goods-producing one.

[4] Slightly less than one-third of the unemployed in June had been unemployed for fewer than five weeks. This ratio is typically at least one-third, marking a subtle shift toward longer-term unemployment this month.

[5] Data on retail sales are adjusted for seasonal and trading day differences, but not for inflation.

garden equipment and supplies dealers (2.4%), nonstore retailers (1.6%), and general merchandise stores (1.2%). Sales growth for motor vehicle and parts dealers was just 0.3%. The only retail sector to have seen a reduction in sales in May was miscellaneous store retailers (0.6%). Many analysts believe that the widespread growth is attributable to federal stimulus payments.

A longer-term view of sales growth may give a clearer picture of the health of consumer spending. Retail sectors' experiences regarding growth in sales for the March through May period, as compared with the year before, differed widely. Sales by gasoline stations were 17.1% higher than the preceding year, due primarily to higher gasoline prices; sales by food and beverage stores were 6.0% higher for the year, for similar reasons. Nonstore retailers also experienced solid growth for the year, at 7.9%. On the other hand, several sectors experienced significant declines in sales, including motor vehicle and parts dealers (5.8%), furniture and home furnishings stores (5.3%), and department stores (3.3%). Despite the favorable experience last month for building material and garden equipment and supplies dealers, they have not recovered from a poor year for sales; sales for the three months ending in May were 3.9% lower than during the corresponding months of 2007.

Residential Construction and Housing Markets

U.S. housing starts decreased by 3.3% in May, falling below one million units on a seasonally adjusted annualized basis. The May figure of 975,000 was 32.1% below its level of the preceding May. The numbers were significantly worse for the Midwest, as housing starts decreased by 25.0% from April to May, to a level 50.0% lower than the preceding May.

Data on building permits exhibited a similar pattern. The number of building permits issued nationally decreased by 1.3% from April to May, remaining below the one million-unit level for a fourth straight month. Compared with the preceding May, building permits were 36.3% lower. For the Midwest the percentage decrease for the month was 7.6%, while the percentage decrease compared with the year before was 37.0%.

The Mortgage Bankers Association (MBA), a trade group, reports that the percentage of mortgage loans in foreclosure rose to 2.47% at the end of the first quarter of 2008. This was over twice the rate of the year before, and was the highest rate since MBA began its survey in 1979. Ohio had the third highest foreclosure rate among states, at 4.10%, lower than only Florida (4.61%) and Nevada (4.12%). MBA reported that the number of Ohio foreclosures decreased in the most recent quarter, but a Global Insight analysis indicates that the number was unchanged after seasonal adjustment. The MBA figures indicate that over half a million homes nationally entered foreclosure during the first quarter, and that over 4.4 million mortgages were in arrears.

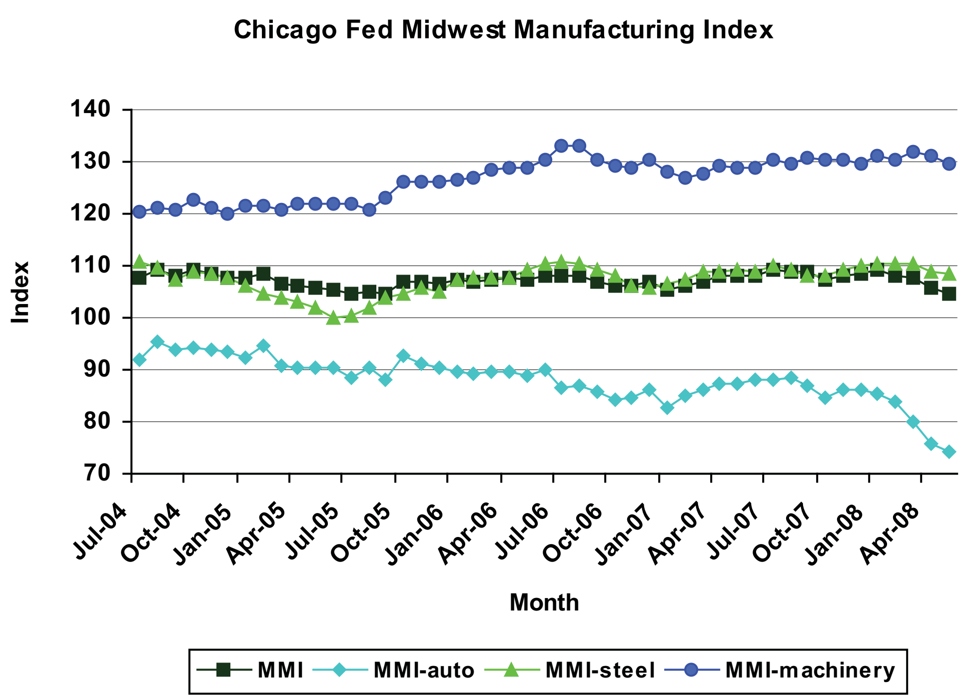
Manufacturing

Shipments of manufactured goods increased by 0.1% to $446.4 billion in May, after seasonal adjustment. This was the fourth increase in the last five months, and followed a solid (and revised) 2.7% increase in April, putting shipments at their highest level since the series was first stated on an NAICS (i.e., North American Industrial Classification

System) basis in 1992. In contrast, shipments of manufactured durable goods decreased 1.1% in May, to $211.2 billion, the third decline in the last four months. Shipments of primary metals continued their recent strength, increasing 1.1%; within this sector, iron and steel mills' shipments increased by 2.7%. Other durable goods sectors that contributed to the (overall) increase included electrical equipment, appliances, and components, shipments of which increased by 0.6%, and machinery (0.5%). Shipments of transportation equipment fell by 3.8%; shipments of light trucks and utility vehicles, a subcomponent, decreased by 7.1%.

New orders for manufactured goods increased by 0.6% in May, and orders for durable goods increased, but by less than 0.1%. The overall increase was the third consecutive monthly increase, putting overall new orders at their highest level since 1992, while the increase for durable goods was the first in four months. New orders for transportation equipment increased by 2.5%, but this was attributable to an increase in orders for aircraft. New orders fell for machinery (by 5.0%), primary metals (2.0%), furniture and related products (1.5%), and fabricated metal products (0.1%). New orders increased for computers and electronic products (2.9%) and electrical equipment, appliances, and components (1.5%).

The national data reported above is fairly current but applies to the entire U.S. economy. The Chicago Fed produces a Midwest Manufacturing Index (MMI) specific to its Federal Reserve District, which includes Michigan, northern Indiana, northern Illinois, southern Wisconsin, and Iowa. While Ohio is not in the Chicago District, Ohio's economy is more similar to that of the states that are in the district than it is to the national economy as a whole. So the MMI may provide a better idea of manufacturing conditions in Ohio than do the national data. The path of the MMI, and of its auto, steel, and machinery subcomponents, from July 2004 through May of 2008 is shown in the accompanying chart.



The overall index shows little change during the period as a whole. None of the months shown experienced industrial production as much as 10% higher than it was in 2002, the base year for the index, but it did reach 9.2% higher in a couple of months since then, most recently in January of this year.

The index fell by 4.0% during the first five months of 2008. The magnitude of the decline in production varied significantly across manufacturing sectors, however. The auto sector index fell by nearly 13% during this period, while the steel index fell by 1.7% and the machinery index fell by just 1.1%. The weak U.S. dollar may have provided some cushion for the steel and machinery industries, but it has provided little to no help to the auto industry.

Inflation and Prices

The consumer price index for all urban consumers (CPI-U) increased by 1.1% from May to June, after seasonal adjustment; CPI-U grew by 0.6% from April to May. These are large increases for a single month; June's increase was the second highest in 26 years. But core inflation, as measured by the CPI-U excluding food and energy, was 0.3% for the most recent month. The implication is that either energy or food prices (or both) rose significantly during the month. In this case energy was the main culprit – the energy component of the index rose 6.6% for the month. For the first six months of 2008 the energy component has risen by 29.1% at a seasonally adjusted annual rate. Overall CPI-U increased 5.0% during the year ending in June; excluding food and energy prices it rose 2.4% for the year.

The numbers for May and June reversed a recent trend of moderating inflation. The annualized inflation rate over the three months ending in June was 7.9%, up from corresponding figures for May and April of 4.9% and 2.3%, respectively. The three-month moving average had been moderating over the preceding few months: the corresponding figures for the three months ending in March, February, and January were 3.1%, 3.1%, and 6.8%, respectively. The jump in June's figure was heavily influenced by energy prices, and annualized core inflation is less alarming. Over the three months ending in June it was 2.5% – somewhat higher than what many economists consider an acceptable range, but not alarmingly so.

Price increases measured by the producer price index for finished goods were 1.4% in May, after seasonal adjustment, and 1.8% in June. That left the index 9.2% higher than the preceding June. As with CPI-U, the increase over the past year has been driven primarily by prices of energy and of food. Excluding these items the index increased by 0.2% from April to May, and by the same percentage from May to June. Excluding energy and food the index rose by 3.0% over the last year.

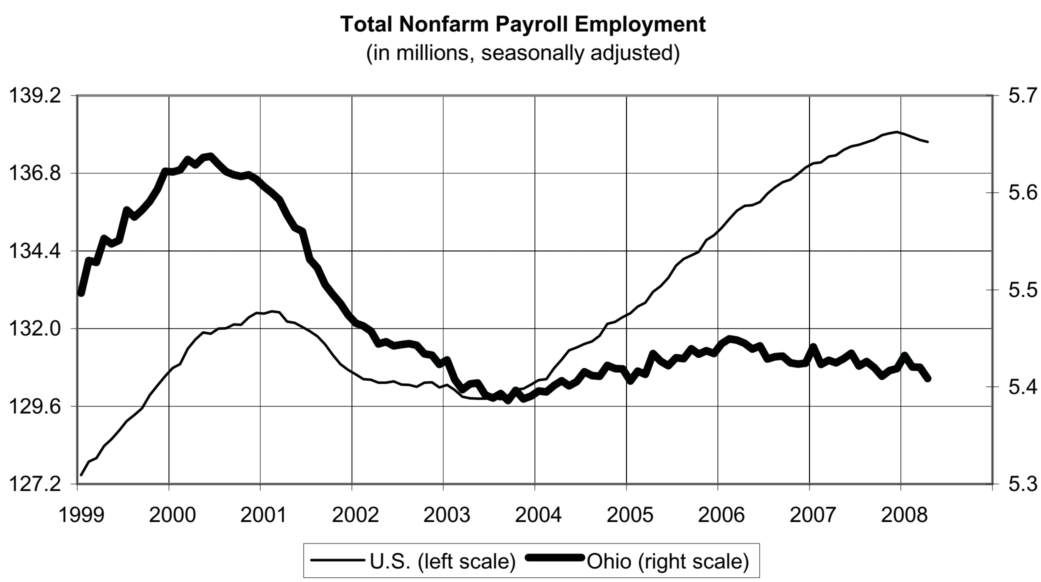
The U.S. Energy Information Administration provides information about more recent price movements for gasoline and diesel fuel, and while prices leveled off in mid-July, they have not fallen significantly. The average price for all grades of conventional formulas of gasoline was just under $4.00 per gallon nationally at the end of May and beginning of June. It has since risen to $4.10 per gallon on July 14. Diesel fuel was selling for around $4.76 per gallon by the middle of July. The average price of gasoline in Ohio was also $4.10 per gallon on July 14.

The Ohio Economy

Ohio's nonfarm payroll employment increased by 9,200 in May, after seasonal adjustment, and by another 7,900 in June. The June increase raised Ohio's employment to slightly over 5.42 million. Employment in goods-producing industries rose by 1,500 in June, and employment in service-providing industries increased by 6,400. In spite of the increases in payroll employment, Ohio's unemployment rate jumped sharply from 5.6% in April to 6.3% in May and rose further to 6.6% in June. The number of unemployed Ohio workers increased from 335,000 in April to 380,000 in May, and to 393,000 in June. In announcing the May data, an ODJFS official attributed the increase to a jump in the number of Ohioans that either began looking for work or resumed looking after a break in their job search.

Ohio's unemployment rate rose to 6.6% in June.

During the year ending in June Ohio payroll employment fell by 9,900. This was the net result of a decrease of 17,100 jobs in goods-producing industries and an increase of 7,200 in services. Durable goods manufacturing lost 9,100 jobs over the year, and construction lost 5,900. Employment increased in educational and health services (by 11,200), in professional and business services (800), in financial activities (200), and in leisure and hospitality (200), which offset declines in employment in other service sectors. Declining service sectors, as measured by employment, were led by other services (2,200), information (2,000), and trade, transportation, and utilities (1,000). The chart below shows Ohio's payroll employment as compared with national figures since 1999.



The Fed's "Beige Book" reported that overall economic activity in the Cleveland District during the weeks leading up to June 11 was stable. The principal exceptions to the overall stability were residential construction and sales of light trucks and SUVs. Regarding the former, Fed contacts reported that sales of new homes were flat or declining in the district and that inventory levels remain elevated. Regarding the latter, high fuel prices have discouraged sales of such vehicles nationwide.

Other sectors of the economy in the Cleveland District did seem to experience stable activity according to the Fed. Output at district factories was described as stable to increasing, with increases generally attributed either to seasonal factors or to rising demand for energy-related products. Contacts reportedly were "guarded" in their assessments of the outlook for demand. Commercial contractors reported that business had held steady, though backlogs were weakening. District retailers reported flat to improving sales during the period across all market segments. Freight transport was described as flat during the period. And employment levels during the period were described as "largely unchanged."

The Ohio Association of Realtors (OAR) reports that 44,156 homes were sold in Ohio during the first five months of 2008, a decrease of 15.4% compared with the corresponding months of 2007. The OAR reported that sales have increased for four straight months and have reached a level that would have been considered typical prior to 2003 (i.e., pre-boom in real estate). The average sales price of $135,336 was 7.4% below that of the corresponding year-earlier period.

Economic Forecast Update

Revenue forecasts that were made during the process of crafting the state's budget were based on forecasts of a number of national and Ohio-specific economic variables, including real GDP (both for the U.S. and for Ohio), Ohio personal income and wage disbursements, and unemployment rates. The forecasts used came from the economic forecasting firm Global Insight and from the Governor's Council of Economic Advisors. This update is intended to provide legislators with a sense of how the outlook for the economy has changed since the budget bill was enacted so that they may anticipate, at least in general terms, the implications for the budget.

Since the June edition of *Budget Footnotes*, Global Insight has updated its national forecast, but not its forecast for Ohio. The table below presents the most recent U.S. forecast. With FY 2008 now complete, this section will focus entirely on FY 2009. As the table shows, the July 2008 forecast values for FY 2009 are significantly less favorable than they were forecast to be for the budget. The forecast for U.S. real GDP growth is 2.6 percentage points lower than was forecast for the budget, personal income is now projected to grow two percentage points slower during FY 2009, and the unemployment rate is now projected to be a full percentage point higher. All of these revisions to the original forecast would tend to be negative from the perspectives of state tax revenues and Medicaid caseloads (and for many Ohioans' household budgets). As reported in the May edition of *Budget Footnotes*, the May 2008 updates to Ohio's economic indicators for FY 2009 were revised, since the budget, in similar fashion. In light of these forecast revisions, budgetary challenges are likely for Ohio in FY 2009.

Revisions to Global Insight Economic Forecast
(selected variables, state fiscal year basis)

	FY 2008		FY 2009	
Variable Name (national)	Forecast for Budget	July 2008 Forecast	Forecast for Budget	July 2008 Forecast
U.S. real GDP growth	2.3%	2.5%	3.2%	0.6%
U.S. personal income growth	5.5%	5.7%	5.6%	3.6%
U.S. CPI inflation	1.8%	3.7%	1.9%	5.8%
U.S. unemployment rate	4.8%	4.9%	4.8%	5.8%

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In Memoriam

Allan R. Lundell
1958 - 2008

LSC Chief Economist Allan Lundell passed away July 7, 2008. A native of Texas, Allan earned a B.A. from Rice University and a Ph.D. from Tulane. In Ohio, he taught as an assistant professor at the University of Akron and at the University of Rio Grande before beginning his state career with the Legislative Budget Office in 1995. He became a respected forecaster of state tax revenue and a key contributor to this publication. Allan's passions were his family and his church, with more than a passing nod to golf and Texas Longhorn football. As we at LSC mourn Allan's death, we will remember him as a talented economist, trusted coworker, and, most importantly, valued friend.

— Mark Flanders, Director